Information Statement

Series EE Bonds

(Issued May 1997 or Later)
United States Treasury Department

What's This Information Statement All About?

This information statement explains selected features of Series EE bonds, as well as some investment considerations relating to these bonds. You can use this document to help you determine whether to buy a bond. **This document applies only to Series EE bonds issued May 1997 or later.** Different rules apply for bonds issued before that date. This document is explanatory only. The offerings, terms, and conditions of bonds are located in the Code of Federal Regulations, at 31 CFR §351. You can find information about paper, definitive bonds, at www.publicdebt.treas.gov/sav/sav.htm and at 31 CFR § 353. Information about electronic, book-entry EE bonds is available at www.treasurydirect.gov and at 31 CFR § 363.

What Are Series EE Bonds?

Series EE bonds are a type of United States Savings Bond offered by the Department of the Treasury. They are issued in either book-entry or definitive form. The United States backs these bonds with its full faith and credit.

A Series EE bond earns interest at a variable market-based savings bond rate. The savings bond rate is calculated as a percentage of market yields on outstanding five-year Treasury securities. We announce this rate every six months.

A bond can earn interest for up to 30 years. Interest accrues monthly and compounds semiannually, and interest earnings are payable only upon redemption. Interest earnings on bonds are exempt from State and Local income taxes but are subject to Federal taxes.

What Are Some Investment Considerations Relating to Series EE Bonds?

Although we've summarized these investment considerations below, we urge you to read more on the pages listed.

- **Redemption.** A bond issued February 2003 or later cannot be redeemed until twelve months after its issue date. A bond issued January 2003 or earlier could not be redeemed until six months after its issue date. *(See page 9.)*
- **Interest Penalty.** If you redeem a bond before it turns five years old, you'll forfeit the three most recent months' interest on that bond. *(See page 9.)*
- **Time Lag.** There can be a delay of several months when changing from the previous savings bond rate to the most recently announced savings bond rate. *(See page 6.)*
- **Portfolio.** As with any investment product, you should consider whether these bonds are the right choice for your investment portfolio. *(See page 3.)*

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Introduction

Overview of Bonds. Series EE bonds are a type of United States Savings Bond offered by the Department of the Treasury. The United States backs these bonds with its full faith and credit.

A bond earns interest at a market-based savings bond rate. The savings bond rate is a percentage of market yields on outstanding five-year Treasury securities. We announce this rate every six months. Interest accrues monthly and compounds semiannually.

A bond can earn interest for up to 30 years, and interest earnings are payable only upon redemption. You cannot redeem a bond until twelve months after its issue date if it was issued February 2003 or later. You could not redeem a bond until six months after its issue date if it was issued January 2003 or earlier. (The issue date of a bond generally is the first day of the month in which you purchased the bond.) Furthermore, if you redeem a bond before it turns five years old, you'll forfeit the three most recent months' interest on that bond.

Interest earned on bonds is exempt from State and Local income taxes. However, bonds are subject to Federal taxes.

Starting December 11, 2001, Series EE savings bonds purchased over-the-counter through financial institutions have been specially inscribed with the legend "Patriot Bond." Payroll savings plan bond issuers use a variety of inscription methods precluding Treasury from being able to offer the special legend to payroll plan buyers. Series EE bonds without the special legend can continue to be purchased through payroll plans. In all other respects, Patriot Bonds are Series EE bonds.

The Big Picture—Bonds and Your Portfolio.

We've designed Series EE bonds to be low-risk investments for the public. As with any investment, you should reflect on whether Series EE bonds meet your investment goals.

With investments generally, the longer your investment horizon, the more risk you may be willing to accept. The greater the risk you assume, the larger the return you may earn. However, greater risk also exposes you to an increased possibility of loss.

In addition, you also should consider whether and how to diversify your investment portfolio. By placing your investment eggs in different baskets, you can reduce your potential loss if some of your investments do not perform well. On the other hand, diversification means that some of your investments will not perform as well as others.

Keeping your investment goals in mind, you can use this information statement to help you evaluate the extent to which Series EE bonds should be a part of your portfolio.

How Does a Bond Increase in Value?

Market-Based Savings Bond Rate. A Series EE bond earns interest at a variable interest rate called the savings bond rate. We announce savings bond rates each May and November. This rate is a percentage of market yields on outstanding five-year Treasury securities. Until the original maturity of a bond, the savings bond rate will be 90% of the average market yields on outstanding five-year Treasury securities, as measured by us over a preceding six-month period. Series EE bonds issued from May 1, 1997 through May 1, 2003 reach original maturity at 17 years. EE bonds issued June 1, 2003 or later reach original maturity at 20 years. After the original maturity, your bond can earn interest until final maturity (30 years) by the same method, unless we specifically change the method in our regulations prior to original maturity.

Please note that the savings bond rate is not equivalent to an annual percentage yield (APY) which financial institutions must disclose when detailing terms of certificates of deposit and other financial offerings. You cannot make direct comparisons between the savings bond rate and the APY.

Semiannual Rate Periods. A bond's semiannual rate periods are consecutive six-month periods, the first of which begins with the bond's issue date.

Why are semiannual rate periods important? It's not until a bond enters a new semiannual rate period that the most recently announced savings bond rate begins to apply. This means that there can be a delay of several months from the time of a savings bond rate announcement to the time that rate determines interest earnings for a bond.

Examples: If you purchase a bond in April, its semiannual rate periods begin every April and October. At the beginning of the semiannual rate period in April, the most recently announced composite rate will be that which we announced the previous November. This rate will determine interest earnings for your bond for the next six months, through the end of September. At the beginning of the semiannual rate period in October, the most recently announced composite rate will be that which we announced the previous May. This rate will determine interest earnings for your bond through the end of the following March.

By contrast, if you purchase a bond in May, its semiannual rate periods begin in May and November. Accordingly, the savings bond rates announced in May and November will apply immediately to this bond.

The table on the next page may help you understand when a savings bond rate applies to a bond, depending on the bond's issue date.

How Semiannual Rate Periods Determine When an Announced Savings Bond Rate Begins to Apply to a Bond

If Your Bond Has an Issue Date of ...	Then Its Semiannual Rate Periods Begin Every ...	And We Announce the Rate that Applies During a Rate Period In ...
January 1	January 1	November (of the previous year)
	July 1	May
February 1	February 1	November (of the previous year)
	August 1	May
March 1	March 1	November (of the previous year)
	September 1	May
April 1	April 1	November (of the previous year)
	October 1	May
May 1	May 1	May
	November 1	November
June 1	June 1	May
	December 1	November
July 1	July 1	May
	January 1	November (of the previous year)
August 1	August 1	May
	February 1	November (of the previous year)
September 1	September 1	May
	March 1	November (of the previous year)
October 1	October 1	May
	April 1	November (of the previous year)
November 1	November 1	November
	May 1	May
December 1	December 1	November
	June 1	May

Notes:

(1) We announce rates every May and November on the first business day of the month. A rate applies when a bond enters a semiannual rate period that begins on or after the month of the rate announcement.

(2) On the first day of every month, we add to your bond's value the interest the bond earned during the previous month. However, a three-month interest penalty applies if you redeem a bond before it turns five years old.

A Few Words About Time Lag.

Depending on the issue month of a bond, there may be a delay between the date of a savings bond rate announcement and the date that the savings bond rate determines interest earnings for the bond. Once the rate begins to apply, it'll continue to do so for the next six months. In addition, interest earned from the rate during any month doesn't accrue to the bond's value until the beginning of the following month.

> **Example:** If you own a bond with an issue date of April 1, the savings bond rate we announce in May won't apply to your bond until October 1, when your bond enters a new semiannual rate period. This savings bond rate will determine interest for the next six months, through March of the following year. Interest earned each month accrues on the first day of the following month.
>
> Thus, in this example your bond will earn its first interest from the May rate in October, and that interest will be credited to your bond on November 1. Your bond will earn interest from the May rate for six months, from October through the following March, so that the last accrual date based upon this rate will be April 1. (Please note that this example doesn't include any discussion of the three-month interest penalty that applies if you redeem a bond before it turns five years old.)

The timeline on the following page may help you understand the above example.

How Time Lag Impacts the Value of a Bond

Beginning in November and through the following April, we calculate the market yields on outstanding five-year Treasury securities. We'll use this average for the savings bond rate that we'll announce the following May.

Nov

Dec

JAN

FEB

MAR

You purchase a bond in April. The issue date for this bond is April 1. Your bond has semiannual rate periods that begin every April and October.

APR

In May, we announce a new savings bond rate. The savings bond rate is a percentage of market yields on outstanding five-year Treasury securities.

MAY

JUN

JUL

AUG

SEP

At the beginning of October, your bond begins a new semiannual rate period. The most recently announced savings bond rate begins to apply during this period. Thus, it's only now that the May savings bond rate begins to determine interest earnings. This rate will determine interest earnings each month for six months.

OCT

NOV

On November 1, the interest earned during October accrues to your bond's value. Another five monthly accruals will occur based on the May savings bond rate.

DEC

Jan

Feb

Mar

Apr

On April 1, interest based on the savings bond rate we announced the previous May accrues to your bond's value for the final time.

Note: This timeline example doesn't reflect the three-month interest penalty that applies if you redeem a bond before it turns five years old.

Accrual of Interest. Interest on a bond accrues on the first day of each month. In other words, we add the interest earned on a bond during any given month to its value at the beginning of the following month.

> **Example:** If you redeem a bond on January 31, none of the interest earned in January will be included in its value. If you wait one more day and redeem the bond on February 1, the value of the bond will reflect interest earned during January.

Accrued interest is payable upon redemption. *(See "Interest Penalty for Early Redemption," on page 9.)*

Compounding. Accrued interest on a bond compounds semiannually, at the beginning of each semiannual rate period.

Issue Price. We offer definitive Series EE savings bonds for one-half their face value. This means that if you buy a definitive Series EE bond with a denomination of $50, you'll pay $25. This differs from Series I bonds and book-entry Series EE bonds, which we offer at face value. We guarantee that a definitive Series EE bond's redemption value at its original maturity will be no less than its face value. At original maturity, the redemption value of a book-entry Series EE bond will not be less than double the principal amount of the bond. (The "principal amount" is also sometimes referred to as the "purchase price").

Bond owners sometimes mistakenly believe that a definitive bond stops earning interest when it reaches its face amount. This assumption is incorrect. A bond can earn interest for up to 30 years. If you hold your definitive bond long enough, its redemption value will reach and can exceed its face value.

Purchase Limitation. You can purchase as much as $60,000 (face amount) in definitive Series EE bonds in the name of any one person per calendar year. Because we sell definitive Series EE bonds for one-half their face value, this means you can spend no more than $30,000 on Series EE bonds registered in your name during any calendar year. The limitation doesn't apply to bonds on which you name yourself as a beneficiary, as opposed to those on which you name yourself as an owner or coowner. The principal amount of book-entry EE bonds in the name of any one person acquired per calendar year is limited to $30,000. For more information, see 31 CFR §§ 351.44 and 351.65 and 353.10-353.12 and 363.52.

Base Denomination for Calculations of Interest. We base all calculations of interest on a hypothetical definitive bond with a denomination of $25 (even though the lowest actual denomination of a definitive bond is $50). The value at the beginning of its first semiannual interest rate period is equal to an issue price of $12.50. We use the value of this hypothetical bond to determine the value of definitive bonds in higher denominations purchased at the same time. The effect of rounding off the value of the $25 bond increases at higher denominations. This can work to your slight advantage or disadvantage, depending on whether we round the value up or down.

> **Example:** A savings bond rate of 2.00% per year, compounded semiannually, will result in a newly purchased hypothetical $25 paper bond ($12.50 issue price) increasing in value

after six months to $12.63, when rounded to the nearest cent. Thus, a $5,000 definitive bond purchased at the same time as the hypothetical $25 bond will be worth $2,526 after six months ([$5,000 ÷ $25] x $12.63 = $2,526). In contrast, if it applied directly to a $5,000 bond, the rate would render a value of $2,525 after six months, a difference of $1.00 . Further, $35.87 invested in an electronic, book-entry EE bond would be worth $36.24 after six months if invested at the same time as the purchase of the hypothetical $25 bond referred to above .This calculation involves first determining the value of $100 invested at the same time ([$100 ÷ $12.50] x $12.63 = $101.04) and, then determining the value of the actual investment — $35.87, in this example—after the first six months: [$35.87 ÷ $100] x $101.04 = $36.24 (Please note that this example doesn't include any discussion of the three-month interest penalty that applies if you redeem a bond less than five years after its issue date.)

Redemption. For a bond issued February 2003 or later, you cannot redeem it until twelve months after its issue date. For a bond issued January 2003 or earlier, you could not redeem it until six months after its issue date.

Interest Penalty for Early Redemption. If you redeem a bond that is less than five years old, you'll forfeit the three most recent months' interest on that bond. However, the bond's redemption value will never be less than what you paid for it.

> **Example:** Suppose that you purchase a bond in January and decide to redeem it the next year in October. We'll calculate the redemption value as if you had redeemed it three months earlier, in July.

How Is Interest Treated for Tax Purposes?

Taxable Interest. Any increase in the value of your bond above what you paid for it is interest, which may be subject to taxation.

State and Local Income Taxes. Interest earnings on bonds are exempt from State and Local income taxes.

Federal Taxes. You must pay all Federal taxes imposed by the Internal Revenue Code of 1986 (as amended). ***Reporting Basis.*** You may use either the ***cash basis method*** (deferred reporting) or ***accrual basis method*** (annual reporting) for reporting interest for Federal income tax purposes. Under the cash basis method, you defer reporting of Federal income tax until the year the bond ceases to earn interest or is redeemed or otherwise disposed of, whichever occurs first. This means that you can't defer reporting Federal income tax on a bond that is no longer earning interest, even if you haven't redeemed the bond. Under the accrual basis, you report interest each year as it accrues. The cash basis method applies unless you choose the accrual basis method by reporting the increase in redemption value as interest each year.

In deciding which method to use, you should consider two additional factors. First, you must use the same method for all Series EE, Series E, or Series I bonds you own or may later purchase. Second, if you elect the accrual basis method, you may switch to the cash basis method only with the permission of the Internal Revenue Service (IRS). (If you use the cash basis method, you may switch to the accrual basis method without the permission of the IRS.) More information on this subject is available in IRS Publication 550, "Investment Income and Expenses."

***Tax-Deferred Exchanges*. Until September 1, 2004,** you may exchange Series EE bonds for Series HH bonds and defer for as many as twenty years the Federal income taxes you may owe on the interest your Series EE bonds earned. After August 31, 2004, you may not exchange Series EE bonds for Series HH bonds. No HH bond will be permitted to have an issue date later than August 2004. The minimum HH bond denomination is $500; that is, the bonds you're exchanging must be worth at least $500. For more information on this subject, please see 31 CFR part 352. The regulations are available at www.publicdebt.treas.gov/sav/sav.htm.

Change in Registration. A change in bond registration that impacts the rights of any of the persons named in a bond's registration may have a tax consequence. More information on this subject is available in IRS Publication 550, "Investment Income and Expenses." This publication is available at the Internet site of the IRS, <***www.irs.gov***>.

Education Bond Program. You may be able to exclude from your Federal income taxes all or a portion of a bond's interest if you use the interest to pay for qualified educational expenses. Additional details regarding the education bond program are available in IRS Publication 17, "Your Federal Income Tax," Publication 550, "Investment Income and Expenses," and Publication 970, "Tax Benefits for Higher Education." These publications are available at the Internet site of the IRS, ***www.irs.gov***.

Where Can I Find Additional Information?

You can find comprehensive details on the offerings, terms, and conditions of Series EE bonds in parts 351 of title 31 of the Code of Federal Regulations. Part 353 contains the governing regulations for definitive Series EE bonds, and Part 363 covers book-entry Series EE bonds. The regulations deal with various topics not covered in this information statement, including procedures for buying, redeeming, replacing, and reissuing (re-registering) bonds. The regulations and additional informal guidance on savings bonds are available from the Internet site of the Treasury Department's Bureau of the Public Debt, www.publicdebt.treas.gov/sav/sav.htm. The site also includes a savings bond calculator and a downloadable program called the "Savings Bond Wizard" that allow you to keep track of the current redemption value of all savings bonds you have purchased.

Note: *This document is explanatory only. It's not an offer of bonds and does not have the force of law. The Code of Federal Regulations provides the offerings, terms, and conditions of Series EE savings bonds. This document does not supplement or modify the official texts.*

Last revised: 04/16/2004

SB-2350-00